

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF EAST KENTUCKY POWER)	
COOPERATIVE, INC. TO ADJUST)	CASE NO. 94-336
ELECTRIC RATES)	

O R D E R

IT IS ORDERED that the East Kentucky Power Cooperative, Inc. ("East Kentucky") shall file an original and 10 copies of the following information with this Commission, with a copy to all parties of record. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible. Where information requested herein has been provided along with the original application, in the format requested herein, reference may be made to the specific location of said information in responding to this information request. The information requested herein is due no later than January 6, 1995.

1. Exhibit A of the Application contains a Statement of Operations which summarizes the overall impact of all of East Kentucky's proposed adjustments. Provide a detailed version of this exhibit. The exhibit should start with the Actual Test Year

balances, then show as a separate column each of the 26 proposed adjustments and the impact on the various accounts, and end with the Proforma Test Year. Each adjustment column shown on this revised exhibit should agree with the corresponding proposed adjustment. Reconcile and explain any amounts which do not agree.

2. Provide an updated version of Exhibit A, Schedule 3 of the Application, using the amounts and interest rates as of June 30, 1994. In addition, provide an updated version of the exhibit as of November 30, 1994 or the most currently available information.

3. Concerning East Kentucky's Deferred Power Bill Plan:

a. Provide a detailed description of the plan. Include the qualifications and terms of the plan.

b. Provide copies of policy statements and materials provided to the cooperatives.

c. Indicate when East Kentucky established the plan and explain why it was established.

4. Provide a schedule listing East Kentucky's short-term investments. Include a general description of each type of investment, identify the financial institution, and indicate the applicable terms and conditions. In addition, provide the investment balances and applicable interest rates as of test-year end, June 30, 1994, and November 30, 1994 (or the most currently available period).

5. Concerning East Kentucky's Cooperative Marketing Loans:

- a. Provide a detailed description of the loan programs. Include the qualifications and terms of the programs.
- b. Provide copies of policy statements and materials provided to the cooperatives.
- c. Indicate when East Kentucky established each program and explain why it was established.

6. Provide the Construction Work in Progress ("CWIP") balance and Allowance for Funds Used During Construction ("AFUDC") interest rate, which is shown in Exhibit A, Schedule 5, page 3 of 3, as of June 30, 1994 and November 30, 1994 (or the most currently available period).

7. As of the response date for this Order, provide and describe all accounting entries East Kentucky has made on its books reflecting the Board of Directors' decision to cancel the J. K. Smith Station Project ("Smith Project"). The entries should reflect not only the initial write off but any subsequent recoveries of the investment in the Smith Project. Include supporting workpapers and calculations which explain how the amounts used in the entries were determined.

8. Explain the adjustments East Kentucky has made to its long-term debt relative to the write-off of the Smith Project. Include all related accounting entries and supporting documentation.

9. Prepare a schedule showing the yearly amount of carrying costs expensed by East Kentucky related to the Smith Project. This

schedule should be broken down between interest expense and other itemized operating costs. The schedule is to cover the time period from the beginning of the Smith Project through June 30, 1994.

10. Refer to Exhibit A, Schedule 7, page 3 of 3 of the Application. Provide all supporting calculations, workpapers, and assumptions used to develop the amounts for regular and overtime pay.

11. East Kentucky states in Schedule 7 that it included 24 full-time positions in the proposed adjustment which are authorized but vacant at test-year end.

a. Explain why it is appropriate to include these vacant positions in the proposed adjustment.

b. Provide the current status of these 24 full-time positions. For each position which has been filled since test-year end, indicate the hiring date and the wage rate or salary applicable to the position.

c. Provide a revised Schedule 7, pages 2 and 3 of 3, excluding the 24 full-time position vacancies. Include all supporting calculations, workpapers, and assumptions used to develop the amounts for regular and overtime pay.

d. Of the 756 positions used in determining the proposed adjustment, indicate how many positions currently are authorized but vacant. Also indicate which of the currently vacant positions were also vacant at test-year end.

12. Provide copies of East Kentucky's current Wage and Salary Plan. Indicate when the plan was last revised and describe how it was developed.

13. Refer to Exhibit A, Schedule 8, pages 2 and 3 of 3 of the Application.

a. Provide all supporting calculations, workpapers, and assumptions used to develop the amounts for Social Security wages, federal unemployment wages, and Kentucky unemployment wages.

b. Provide a revised Schedule 8, pages 2 and 3 of 3, excluding the 24 full-time position vacancies. Include all supporting calculations, workpapers, and assumptions used to develop the amounts for regular and overtime pay.

14. Refer to Exhibit A, Schedule 9 of the Application.

a. Explain why it is appropriate to include the 24 test-year end authorized but vacant positions in the proposed adjustments.

b. Explain the reason for the difference between the scheduled overtime wages shown on Schedule 9, page 4 of 10, with the full-time hourly overtime pay shown on Schedule 7, page 3 of 3. Also explain why the total normalized full-time hourly overtime pay is not used in calculating the adjustment proposed in Schedule 9.

c. Provide a revised Schedule 9, page 4 of 10, excluding the 24 full-time position vacancies. Include all supporting calculations, workpapers, and assumptions used to develop the amounts for regular and overtime pay.

d. Indicate the number of test-year-end authorized but vacant positions that are included in the dependents covered figure shown on page 8 of 10.

e. Explain the benefits provided under the Employee Assistance Program.

15. Provide the calculations, workpapers, documents, and assumptions which support the following benefit cost rates shown in Schedule 9:

a. Annual cost per employee for medical insurance, page 5 of 10.

b. Retired, disabled, and spouses of retired employees' monthly premium for medical insurance, page 5 of 10.

c. Monthly dental insurance cost per participant, page 6 of 10.

d. Monthly cost of disability insurance, page 7 of 10.

e. Monthly life insurance costs for double salary, dependent, employee, and retired coverage, page 8 of 10.

f. Monthly rate for Employee Assistance Program, page 9 of 10.

g. Monthly cost per employee for 24-hour accident insurance, page 10 of 10.

16. Refer to Exhibit A, Schedule 11 of the Application.

a. Explain how East Kentucky calculated the real estate and tangible assessments shown in Schedule 11. Include as an example of these calculations the workpapers and assumptions used

to determine the real estate and tangible assessments for Clark County.

b. Provide copies of the documentation supporting the tax rates shown on Schedule 11. If the rates reflect a period other than the 1993 tax year, explain why the 1993 tax year rate was not used.

c. In Schedule 11, East Kentucky states that the actual property taxes for 1993 equalled \$2,262,754. The response to Item 18(a) of the October 26, 1994 Order, page 9 of 9, indicates the amount paid in 1993 was \$2,484,109.51. Provide a reconciliation of these two amounts and indicate which reflects the test-year actual expense. Indicate whether the test-year actual amount includes taxes on non-utility property.

d. Indicate whether the amounts included in Schedule 11 include property taxes on non-utility property. Provide the normalized amount of property taxes on non-utility property, either by identifying the amount from Schedule 11 or calculating the amount.

17. Refer to Exhibit A, Schedule 12, page 7 of 7 of the Application. Explain what the "sick leave reserve" represents and why it is included as long-term debt.

18. Provide an updated version of Exhibit A, Schedule 12 of the Application, using the long-term debt amounts and interest rates as of June 30, 1994. In addition, provide an updated version of the exhibit as of November 30, 1994 or the most currently available information.

19. The response to Item 39 of the October 26, 1994 Order stated that four variable rate debt issues had been repriced since the test-year end. Explain why these four debt issues had to be repriced. Indicate when the next repricing date is scheduled.

20. Included in Exhibit A, Schedule 13 of the Application is a post-test-year adjustment normalizing the interest expense on anticipated new debt. Provide the following information:

- a. The date the new debt was actually incurred.
- b. The amount borrowed.
- c. The name of the lender.
- d. The terms and conditions of the new debt, including the initial interest rate.

21. The post-test-year adjustment for the new combustion turbines, shown in Exhibit A, Schedule 15 of the Application, includes interest expense using a 7.681 percent rate. The response to Item 39 of the October 26, 1994 Order indicated that this interest rate was an estimated rate, and that this rate was recently revised to 8.191 percent.

- a. Explain why there has been an increase in the estimated interest rate.
- b. Since East Kentucky has indicated this is an estimated rate, when does it expect the financing will be finalized?

22. Provide the calculations, workpapers, documents, and assumptions which support the total investment, operating costs,

and cost rates shown in Exhibit A, Schedule 15, page 2 of 2 of the Application.

23. Provide all calculations, workpapers, documents, and assumptions used to determine the proposed post-test-year wheeling charge adjustment shown in Exhibit A, Schedule 16, page 2 of 2 of the Application. Include the date the new Kentucky Utilities Company ("KU") wheeling charge took effect.

24. Provide all calculations, workpapers, documents, and assumptions used to determine the proposed post-test-year increase in purchased power costs from the Southeastern Power Administration ("SEPA") shown in Exhibit A, Schedule 17, page 2 of 2 of the Application. Include documentation from SEPA which supports the proposed change in East Kentucky's purchased power costs.

25. Provide all calculations, workpapers, documents, and assumptions used to determine the proposed post-test-year cost adjustments associated with Gallatin Steel shown in Exhibit A, Schedule 18, page 2 of 3 of the Application.

26. Refer to Exhibit A, Schedule 19, page 3 of 5 of the Application and the response to Item 23(a) of the October 26, 1994 Order.

a. Provide a reconciliation of the advertising expenses shown on Schedule 19, page 3 of 5, with the amounts shown in Item 23(a), page 4 of 4. Explain the reasons for the differences between the two amounts.

b. East Kentucky has proposed a reduction in advertising expenses of \$376,367. Using the advertising breakdown

shown in Item 23(a), pages 1 and 2 of 4, identify the advertising expenses East Kentucky is proposing to remove from the test year.

c. Provide a detailed description of the nature of the following types of advertising. Include three examples from each referenced type of advertising. For radio and television advertising, provide the text of the radio or television spot. For advertising other than radio and television, provide the advertising material.

(1) Conservation - Newspaper - Cost-shared advertising with member systems.

(2) Conservation - Magazines and Other - Kentucky Living Ads.

(3) Conservation - Magazines and Other - Cost-shared advertising with member systems.

(4) Conservation - Television - UK Sports Network.

(5) Conservation - Radio - UK Sports Network.

(6) Conservation - Radio - Cost-shared advertising with member systems.

(7) Conservation - Sales Aids - Cost-shared advertising with member systems.

d. In the response to Item 23(a), page 2 of 4, East Kentucky states that the balance of charges made to advertising accounts were not advertising expenses. Identify what these additional charges were for and explain why the charges were recorded as advertising expenses.

27. Exhibit A, Schedule 20 of the Application shows directors' fees and expenses for the test year of \$211,962. In the response to Item 43(c) of the October 26, 1994 Order, East Kentucky provided an analysis of directors' fees and expenses totalling \$560,673. Provide a reconciliation of the two amounts and explain all reconciling items.

28. Prepare a revision of Exhibit A, Schedule 20 of the Application, breaking down the amounts in each column between the categories of fees, expenses, and third party payments.

29. Explain why per diem fees paid to directors for attending meetings other than East Kentucky regular board meetings should be included for rate-making purposes.

30. Refer to the response to Item 43(c) of the October 26, 1994 Order. For each vendor listed below, provide a description of the services supplied and explain why these services were necessary.

- a. French Quarter Suites.
- b. Loudon Square.

31. Provide a description of East Kentucky's policies concerning the selection of the airline used for directors' flights to meetings. Explain what analysis is performed to ensure that the airline selected represents the most cost effective option.

32. The response to Item 43(c), page 15 of 16 of the October 26, 1994 Order shows payments for directors' insurance coverage.

a. Describe the insurance coverage provided to East Kentucky's directors. Identify the providers of this coverage.

b. Prepare a schedule listing each director of East Kentucky as of test-year end which shows the insurance coverage the director receives from East Kentucky and the insurance coverage provided by the distribution cooperative the director represents.

c. Explain why East Kentucky believes it is necessary to provide its board of directors with insurance coverage.

d. Explain why the cost of directors' insurance coverage should be included for rate-making purposes.

33. a. Provide all calculations, workpapers, documents, and assumptions used to determine the proposed post-test-year adjustment for retirement shown in Exhibit A, Schedule 22, page 2 of 3 of the Application.

b. Provide copies of documentation received from the National Rural Electric Cooperative Association ("NRECA") announcing the end or anticipated end of the current moratorium.

c. Explain the impact the current rising trend in interest rates will have on the annual cost.

34. Concerning the NRECA retirement program, explain how employer and employee contributions have been or will be determined and recorded on East Kentucky's books during these time periods:

a. Prior to the moratorium.

b. During the moratorium.

c. After the moratorium is ended.

35. Schedules 23 and 24 of Exhibit A of the Application are identified as proposed adjustments to Kentucky sales tax and interest on Kentucky sales tax. However, the narrative description

of the adjustments references an audit of property taxes. Provide a detailed description of the tax problem. Include copies of the audit report.

36. East Kentucky has proposed several significant post-test-year adjustments, which have or are expected to occur sometime during a 17-month period after test-year end.

a. Given the nature and types of the post-test-year adjustments proposed, explain why East Kentucky decided to use a test year ending December 31, 1993 instead of a more current period.

b. KRS 278.192 and 807 KAR 5:001, Section 10(8), provide for the use of a fully forecasted test period. Given the nature and types of post-test-year adjustments proposed, explain why East Kentucky decided to use a historic test period with pro forma adjustments rather than a fully forecasted test period.

37. Refer to Exhibit J, the Prepared Testimony of David G. Eames, page 3 of 4 of the Application. Provide copies of the cited portion of 7 CFR Part 1710 which establishes the Rural Utilities Services ("RUS"), formerly the Rural Electrification Administration ("REA"), requirement that generation and transmission cooperatives maintain a Times Interest Earned Ratio ("TIER") of 1.05 in order to qualify for Federal Financing Bank funding.

38. Refer to Exhibit L, the Prepared Testimony of James R. Adkins, page 9 of 23 of the Application. Mr. Adkins states that the 1.15 TIER requested in this proceeding is the same as that

authorized in East Kentucky's last general rate case, which was decided in 1983.

a. Explain why the TIER level authorized in 1983 has a bearing on what the appropriate TIER level for East Kentucky should be today.

b. Provide East Kentucky's justification for proposing a 1.15 TIER in this proceeding.

39. Refer to Exhibit Y, page 73 of 95 of the Application. Explain why East Kentucky did not propose an adjustment to its PSC Assessment.

40. Provide a summary of the Gallatin Steel projects in the format used by East Kentucky shown on pages 5 through 8 of 39 of Exhibit Z.

41. The response to Item 1 of the October 26, 1994 Order contains East Kentucky's Bylaws. Section 4.07 of the Bylaws (page 14 of 101) states that directors may be entitled to receive fixed sum and expense payments after retirement from the Board of Directors, as authorized and determined by the Board.

a. Prepare a schedule of payments made to retired directors during the test year. Identify each retired director and the member distribution cooperative he represented. Indicate the expense account where these payments were recorded.

b. Prepare a schedule of payments made to retired directors since the end of the test year. Identify each retired director and the member distribution cooperative he represented. Indicate the expense account where these payments were recorded.

c. Explain why payments to retired directors are essential to the operation of East Kentucky and should be included for rate-making purposes.

42. Refer to the response to Item 4 of the October 26, 1994 Order. Included on Format 4a are the Dale Pollution Control Bonds.

a. Explain why the bonds scheduled to mature on February 1, 1994, August 1, 1994, and February 1, 1995 should be included as long-term debt.

b. For the two bond series with maturity dates in 1994, explain what actions East Kentucky performed at maturity. Include all accounting entries made by East Kentucky.

c. Explain why the bonds maturing in 1994 and by February 1, 1995 were included in East Kentucky's proposed adjustment to normalize interest expense on long-term debt.

43. Refer to the response to Item 10(d) of the October 26, 1994 Order. Explain why there was a decrease in the balance for Account No. 106.00 between May and June 1993.

44. Refer to the response to Item 10(e) of the October 26, 1994 Order. Explain why the balance for CWIP with no capitalized interest dropped significantly between November 1993 and December 1993.

45. Refer to the response to Item 10(m) of the October 26, 1994 Order. Explain the makeup of the \$566,054 balance in Account No. 165.10 shown for March 1993.

46. The response to Item 12(g) of the October 26, 1994 Order did not describe the current status of each project concerning

electric property or plant held for future use. Provide the omitted information.

47. Refer to the response to Item 13 of the October 26, 1994 Order. For each account listed below, provide the reason(s) for the change in the account test-year-end balance and the prior 12-month balance.

a. Account No. 108.60, Accumulated Depreciation - Distribution Plant, page 3 of 13.

b. Account No. 108.70, Accumulated Depreciation - General Plant, page 3 of 13.

c. Account No. 311.40, Structures and Improvements - Spurlock Common, page 5 of 13.

d. Account No. 391.00, Office Furniture and Equipment, page 12 of 13.

48. Refer to the response to Item 14, pages 2 and 3 of 11, of the October 26, 1994 Order. Should the amount credited to Account No. 108.60 be \$1,486,122.02 rather than \$1,426,122.02?

49. Refer to the response to Item 15 of the October 26, 1994 Order. For each account listed below, provide the reason(s) for the change in the account test-year balance and the prior 12-month balance.

a. Account No. 44712, Sales - Resale - REA Oglethorpe, page 5 of 24.

b. Account No. 44714, Sales - Resale - Associate Electric, page 7 of 24.

c. Account No. 44722, Sales - Resale - Other, TVA, page 10 of 24.

d. Account No. 44724, Sales - Resale - Other, Kentucky Power, page 12 of 24.

50. Refer to the response to Item 16(a) of the October 26, 1994 Order. For each account listed below, provide the reason(s) for the change in the account test-year balance and the prior 12-month balance.

a. Account No. 501.20, Fuel - Coal - Dale, page 3 of 11.

b. Account No. 501.42, Fuel - Coal - Spurlock #2, page 3 of 11.

c. Account No. 555.00, Purchased Power, page 7 of 11.

d. Account No. 926.00, Employee Pensions and Benefits, page 10 of 11.

51. Refer to the response to Item 16(a) of the October 26, 1994 Order. The response did not include the 400 series of operating expense accounts. Provide the requested information, in the format used in Item 16(a), for Account Nos. 403 through 411, including all subaccounts.

52. Refer to the response to Item 16(c) of the October 26, 1994 Order. For each of the expense classifications listed below, explain the reason(s) for the overall increase in salaries and wages between the test year and calendar year 1992.

a. Transmission expenses.

b. Distribution expenses.

c. Customer Service and Information.

53. Refer to the response to Item 16(d) of the October 26, 1994 Order.

a. Explain how the test year increase of 3.5 percent was determined. Include copies of any studies, surveys, or other analysis used to determine the amount of the increase.

b. Indicate whether East Kentucky's board authorized a wage and salary increase in 1994. If so, provide the amount of increase. If not, explain why no increase was authorized.

54. Refer to the response to Item 22, page 2 of 5, of the October 26, 1994 Order. Lines 10 and 14 of East Kentucky's electric plant in service schedule show negative "additions."

a. Explain the transactions represented in this response as negative "additions" totalling \$5,255,784.

b. Explain why these transactions were shown as negative "additions" rather than adjustments or retirements.

55. Refer to the response to Item 23(b), pages 1 through 41 of 62, of the October 26, 1994 Order. This part of the response contains a detailed schedule of transactions from Account Nos. 930.20 through 930.22. For each of the listed vendors, provide a description of the goods or services purchased during the test year. Indicate whether these expenses reflect recurring transactions. Also indicate whether the test-year level of expense reflects a reasonable, on-going level of expense for East Kentucky.

a. Jostens Inc.

b. National Food.

- c. BellSouth Mobility.
- d. Rural Cooperative.
- e. Zak Productions.
- f. Rees Printing.
- g. K R Photographic.
- h. Delta Air Lines.
- i. Cornett Group.
- j. Video Editing.
- k. Vitality Magazine.

56. Refer to the response to Item 23(b), pages 41 through 62 of 62, of the October 26, 1994 Order. This part of the response contains a detailed schedule of Account No. 930.25 transactions. For each of the listed vendors, provide a description of the goods or services purchased during the test year. Indicate whether these expenses reflect recurring transactions. Also indicate whether the test-year level of expense reflects a reasonable, on-going level of expense for East Kentucky.

- a. Rural Cooperative.
- b. Delta Air Lines.
- c. WESCO.
- d. Tennessee Valley.
- e. Enertech Consultants
- f. Aptech, Inc.
- g. Electrotech Inc.
- h. General Electric.
- i. Central Air.

j. University of Kentucky.

57. Refer to the response to Item 23(c), pages 6 and 7 of 7, of the October 26, 1994 Order.

a. Explain the type of life insurance costs recorded in Account No. 426.20. Identify the reference to "SERP" in this account.

b. Describe the following transactions recorded in Account No. 426.50, Other Deductions:

(1) Spurlock Write-off - Pipe Fitting.

(2) Void Lawrence Pump Retainage.

(3) Void Zurn Retainage.

58. Refer to the response to Item 24, pages 3 through 6 of 6, of the October 26, 1994 Order. For each of the vendors listed, provide a general description of the goods and services provided to East Kentucky. Indicate whether the test year expense represents a reasonable, on-going level of cost and explain the reason(s) supporting East Kentucky's position.

a. Coopers and Lybrand.

b. Preston Group.

c. R. W. Beck and Associates.

d. Duncan and Allen.

e. Brown, Todd and Heyburn.

f. Black and Veatch.

g. Fuller, Mossbarger, Scott and May.

h. Babcock and Wilcox.

i. ECAR General.

- j. Kentucky Utilities.
- k. Stanley Consultants.
- l. E T S Inc.

59. Refer to the response to Item 27 of the October 26, 1994 Order.

a. Based on the description of the duties of the President of East Kentucky, explain why none of his compensation or expenses were classified as lobbying expenses.

b. Explain East Kentucky's position concerning whether lobbying expenses should be included for rate-making purposes.

60. Provide a revised copy of Format 31 showing the percentage change information originally requested.

61. Provide an update of the response to Item 33 of the October 26, 1994 Order showing the rates used to capitalize interest during construction for the months available in 1994.

62. Concerning Other Postretirement Employee Benefits ("OPEB"):

a. Explain East Kentucky's funding policy for OPEB costs.

b. Is East Kentucky currently funding any of its OPEB costs?

c. Provide any analyses performed to show the future annual cash requirements to provide the benefits previously written off.

d. Provide the amount of OPEB expense included in the test year. Break this amount down between medical and life

insurance. Include all supporting calculations, workpapers, documents, and assumptions.

63. Refer to the response to Item 37 of the October 26, 1994 Order.

a. Indicate whether East Kentucky has an actuary on staff. If not, identify the employee(s) who developed the OPEB assumptions and calculated the costs. Provide these employees' qualifications for performing this work.

b. Explain the information presented on pages 3 through 5, 10, and 11 of 11 in the response. Include all supporting calculations, workpapers, documents, and assumptions.

c. Reconcile the amounts shown on page 2 of 11 with the amounts shown on pages 3 through 5 of 11. Explain all reconciling items.

d. Provide a justification for the rates shown in Assumption No. 4, Escalation Rate Stream, on page 9 of 11. Include copies of supporting studies or analyses.

e. Provide a justification for the life insurance escalation factor. Include copies of supporting studies or analyses.

f. Explain why the 1983 Group Annuity Mortality Table was used.

64. Refer to Item 37, page 9 of 11, of the October 26, 1994 Order. Does Year 1 in Assumption No. 4 refer to the year in which Statement of Financial Accounting Standard ("SFAS") No. 106 was adopted by East Kentucky or to 1993?

65. East Kentucky has stated that the firm of Coopers and Lybrand reviews the in-house development of OPEB assumptions and cost calculations as part of its annual audit work. In Exhibit S of the Application, the most recent auditor's report, the notes to the financial statements only address how East Kentucky's OPEB costs and accruals were determined. Explain whether Coopers and Lybrand's audit review includes a determination of the reasonableness of East Kentucky's assumptions. If yes, provide copies of any reports from Coopers and Lybrand stating the results of this determination.

66. The Health Care Financing Administration reported in November 1994 that the total bill for Americans' health care increased 7.8 percent over the 1992 amount.¹ Prepare a recalculation of Assumption No. 4 as shown in Item 37, page 9 of 11. Set the year in the escalation rate stream which represents 1993 at 8 percent. Calculate the effect of a 1993 rate of 8 percent through the remainder of the escalation rate stream.

67. Provide a schedule showing a breakdown of the OPEB expense for the test year identifying the following:

- a. Service costs;
- b. Interest costs;
- c. Gains or losses; and
- d. Return on plan assets.

Provide this same information using an 8 percent escalation rate

¹ Lexington Herald-Leader, Wednesday, November 23, 1994, Associated Press, "Health-Care Inflation in '93 Hit 7-year Low."

for 1993. For both schedules, include all supporting calculations, workpapers, documents, and assumptions.

68. Provide a schedule showing how much East Kentucky's group medical insurance has increased over the past three years.

69. Describe what steps have been taken by East Kentucky to reduce or control costs of OPEBs.

70. Concerning East Kentucky's adoption of SFAS No. 106 in 1991:

a. Describe REA's requirements concerning the adoption of SFAS No. 106 in effect when East Kentucky adopted the standard.

b. Describe the accounting entries East Kentucky made to comply with the REA requirements. Include all supporting calculations, workpapers, documents, and assumptions.

c. Indicate when REA changed its requirements concerning the adoption of SFAS No. 106. Explain what effects these changes had on East Kentucky's accounting for OPEB costs.

71. Describe the types of other postretirement benefits offered by East Kentucky.

72. Refer to the response to Item 38 of the October 26, 1994 Order. SFAS No. 112 became effective for fiscal years beginning after December 15, 1993. Explain why East Kentucky has not adopted SFAS No. 112.

73. Provide the complete details of the financial reporting and proposed rate-making treatment of East Kentucky's pension costs, including funding status.

74. Refer to the response to Item 44(c), page 2 of 23, of the October 26, 1994 Order. Describe how the benefit to cost ratio for East Kentucky's Electric Power Research Institute membership was determined. Include all supporting calculations, workpapers, documents, and assumptions.

75. Refer to the response to Item 53 of the October 26, 1994 Order.

a. Provide a consolidated response to parts (a) and (b) of this request.

b. With the exception of the outside attorney and Kelly Services, Inc., is it correct that all references to labor mean East Kentucky employees?

c. Explain why East Kentucky believes it was necessary to retain outside counsel for this proceeding.

76. Provide the amount of gross proceeds East Kentucky received from emission allowances retained and auctioned by the Environmental Protection Agency in 1993 and 1994. Provide the accounting entries made to record the receipts.

77. Has East Kentucky considered seeking an environmental surcharge pursuant to KRS 278.183? Explain why East Kentucky believes it would or would not be reasonable to establish an environmental cost recovery mechanism to pass any money collected through emission allowance sales to ratepayers.

78. A review of East Kentucky's annual reports since 1990 indicates that it has constructed a new operations center and built an addition to its Winchester headquarters.

a. Provide the total costs of each of these new buildings.

b. Identify the Commission proceeding where East Kentucky sought and received a Certificate of Convenience and Public Necessity for each project. If no certificate was sought, explain East Kentucky's reason(s) for not seeking a certificate.

79. Provide a monthly breakdown of the test year Fuel Adjustment Clause ("FAC") revenue of (\$6,300,307) shown on Exhibit A, page 1 of 1, of the Application.

80. Provide the total amount of jurisdictional fuel cost charged to East Kentucky's members through base rates and FAC charges, or credits, during the test year. Include a monthly breakdown and provide a reconciliation of these amounts with those included in East Kentucky's monthly FAC reports for the test year.

81. Refer to Exhibit A, Schedule 2, of the Application. Explain why the FAC credit factors for January, February, and March have been restated as if the year-end base fuel rate of 1.271 cents per Kwh was in effect for these months.

82. The response to Item 45 of the October 26, 1994 Order provided monthly and average customers, by rate schedule. For each rate schedule, for the test year, provide the following:

- a. Average Kwh sales per customer.
- b. Average revenue per Kwh.
- c. Average variable cost per Kwh.

83. Several of the proposed expense adjustments are based on test-year-end data while some adjustments are considered post-test

year in nature. Given its current and recent customer growth, explain why East Kentucky has not proposed a revenue adjustment based on test-year-end customer levels.

84. Exhibit A, Schedule 18, of the Application, page 3 of 3, shows the post-test-year revenue adjustment for sales to Gallatin Steel. Provide supporting documentation and explanation for the MWH and Monthly Rate under the heading "Energy Related" for Firm, Interruptible 1, Interruptible 2, and Louisville Gas and Electric Company ("LG&E") Interruptible.

85. On Exhibit A, Schedule 18, of the Application, the LG&E charges of \$519,444 (monthly revenue) are equal, on an annual basis, to the \$6,233,328 shown as Purchased Power Costs-LG&E indicating that the total cost is passed from LG&E through East Kentucky to Gallatin Steel. However, the total wheeling costs associated with Gallatin Steel, of \$1,448,400, also shown on Schedule 18, apparently do not pass through because the only wheeling revenues shown are KU's wheeling charges of \$56,800 per month, or \$681,600 annually. Explain the discrepancy between wheeling costs and wheeling revenues and whether someone other than KU will be involved in wheeling power to Gallatin Steel.

86. Exhibits L and M of the Application address the issues of revenue allocation and rate design changes.

a. If the Commission were to find that East Kentucky's revenues should be reduced by more than \$28 million, as proposed, would the same revenue allocation and rate design proposals be applicable to a larger decrease?

b. Provide any concerns or comments East Kentucky may have regarding revenue allocation and rate design if the final revenue decrease is greater than proposed.

87. Identify the date of issue of the REA Bulletin 183-1 which contains East Kentucky's proposed depreciation rates. If the date of issue is after October 28, 1977, provide a copy of the bulletin.

88. Explain any instance in which the proposed rate is outside of the ranges specified by the REA.

89. Explain how depreciation rates were developed for any plant account that is not specifically addressed in REA Bulletin 183-1. For example, East Kentucky has used Account 399, Other Tangible Property, for its investment in Research Meters, which by its unique nature, is not addressed by the REA.

90. Refer to the response to Item 35 of the October 26, 1994 Order. Page 3 of 5 of the response is a letter dated January 23, 1990 signed by Joseph R. Binder with the REA approving a request made by East Kentucky "to establish a 32-year life for all of its steam plants and to depreciate all future additions within the remaining period of the estimated life for each unit."

a. Provide a complete copy of all documentation provided to the REA in support of East Kentucky's request.

b. Provide a copy of any analysis or study used to determine the appropriateness of a 32-year life for steam plants, if not included above.

c. Provide information on the other parameters, such as salvage values and removal costs, used to develop the proposed depreciation rates for steam production plants. Sufficient information should be provided to duplicate the proposed rates.

91. Refer to the response to Item 35 of the October 26, 1994 Order. Explain why the use of the industry average depreciation rates developed by REA are more appropriate than rates developed based upon information specific to East Kentucky.

92. Refer to the response to Item 35 of the October 26, 1994 Order. The information on page 4 of 5 indicates that the Dale Station is fully depreciated. Indicate when the remaining generating plant will be fully depreciated, assuming continued application of the proposed depreciation rates.

93. Refer to the Application, Exhibit H, page 4 of 11, and Exhibit L, page 11 of 23, question 16. Why are all purchased power expenses allocated to either Production Energy or Production Demand?

94. Refer to the Application, Exhibit H, page 6 of 11, and Exhibit L, page 12 of 23, question 17. How are the costs associated with off-system sales, in the amount of \$70,075,302, calculated?

95. Refer to the "Classification" schedule shown in Exhibit H, page 7 of 11, of the Application.

a. Why are subtransmission and transmission substation costs classified as demand-related?

b. Mr. Adkins refers to the "Electric Utility Cost Allocation Manual" of the National Association of Regulatory Utility Commissioners on page 11 of his testimony. The following statement appears on page 90 of that manual: "Distribution substation costs (which include Accounts 360 - Land and Land Rights, 361 - Structures and Improvements, and 362 - Station Equipment), are normally classified as demand-related." Why did East Kentucky classify its distribution substation costs as customer-related?

96. Refer to the Application, Exhibit H, page 7 of 11, and Exhibit L, page 14 of 23, question 21.

a. Provide and explain all calculations and data used in the "average and excess" methodology. Show how the methodology was used to allocate demand costs to rate classes.

b. Why does East Kentucky consider it inappropriate to use demand allocation methods that "only use contributions within the defined demand interval upon which to base the allocation of costs?"

Done at Frankfort, Kentucky, this 14th day of December, 1994.

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:


Executive Director